

ANNUAL REPORT JUNE 30, 1976



DIGITECH LTD.

A RESOURCE DEVELOPMENT SERVICE COMPANY

**DIRECTORS:**

Donald C. Burt, President, Digitech Ltd., Calgary, Alberta  
John D. Boyd, Vice President, Digitech Ltd., Calgary, Alberta  
Richard Burke, Vice President, Canadian Enterprise Development Corporation Limited, Vancouver, B.C.  
E. Keith Conrad, Partner, Conrad, Wilson & Hawley, Calgary, Alberta  
Roderick R. McDaniel, President, McDaniel Consultants (1965) Ltd., Calgary, Alberta  
David B. Nicholson, Executive Vice President and General Manager, PanCana Industries Ltd., Calgary, Alberta  
Donald W. Simpson, Vice President, Digitech Ltd., Calgary, Alberta  
Donald G. Thurston, Vice President, Industrial Products Division, Bow Valley Industries Ltd., Calgary, Alberta

**OFFICERS:**

Donald C. Burt, President  
John D. Boyd, Vice President  
E. Keith Conrad, Chairman of the Board  
Ray C. Friesen, Secretary-Treasurer  
Roger R. Rose, Vice President  
Donald W. Simpson, Vice President  
Neil M. Thompson, Vice President

**HEAD OFFICE:  
DIGITECH LTD.**

500, 441 - 5 Avenue S.W.  
Calgary, Alberta, T2P 2V1.

**Denver, U.S.A.:**

Digitech, Inc.  
718 - 17th Street,  
Denver, Colorado, 80202.

**TRANSFER AGENTS AND REGISTRARS:**

Montreal Trust Company  
Calgary, Toronto and Vancouver

**AUDITORS:**

Price Waterhouse & Co.  
Calgary, Alberta

**LEGAL COUNSEL:**

Macleod Dixon  
Calgary, Alberta

**BANKERS:**

The Toronto-Dominion Bank  
Calgary, Alberta

**STOCK LISTED:**

Toronto Stock Exchange

# INTERIM REPORT TO SHAREHOLDERS

FOR SIX MONTHS ENDED  
DECEMBER 31, 1976

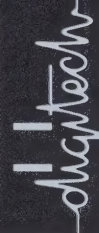
## DIGITECH LTD.

### CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

|   | Six Months Ended<br>December 31, |            | Three Months Ended<br>December 31, |            |
|---|----------------------------------|------------|------------------------------------|------------|
|   | 1976                             | 1975       | 1976                               | 1975       |
| Working Capital Provided By:  |                                  |            |                                    |            |
| Operations  |                                  |            |                                    |            |
| (Loss) profit from continuing operations before depreciation and amortization, income taxes and extraordinary items | \$ (33,898)                      | \$ 273,007 | \$ 94,877                          | \$ 76,255  |
| Less income taxes — current   | (35,000)                         | (20,000)   | (35,000)                           | (20,000)   |
| Add profit from discontinued operations before depreciation and amortization, income taxes and extraordinary items  | —                                | 106,037    | —                                  | 77,807     |
|   | (68,898)                         | 359,044    | 59,877                             | 134,062    |
| Share capital issued  | 150,000                          | —          | 150,000                            | —          |
| Repayments on notes receivable, including change in current portion   | 2,208                            | 2,208      | 2,208                              | 1,104      |
| Proceeds on disposal of fixed assets  | —                                | 23,949     | —                                  | 23,949     |
| Proceeds from discontinued facilities   | 2,855                            | —          | —                                  | —          |
|   | 86,165                           | 385,201    | 212,085                            | 159,115    |
| Working Capital Used For:   |                                  |            |                                    |            |
| Purchase of fixed assets  | 16,683                           | 38,910     | 16,683                             | 29         |
| Repayments of long-term debt, including changes in current portion  | 114,454                          | 97,505     | 105,924                            | 86,753     |
|   | 131,137                          | 136,415    | 122,607                            | 86,782     |
| (Decrease) increase in working capital  | (44,972)                         | 248,786    | 89,478                             | 72,333     |
| Working capital, beginning of period  | 178,647                          | 23,125     | 44,197                             | 199,578    |
| Working capital, end of period  | \$ 133,675                       | \$ 271,911 | \$ 133,675                         | \$ 271,911 |

**DIGITECH LTD.**

500 - 441 Fifth Avenue South West  
Calgary, Alberta, Canada T2P 2V1



A natural resources service company with offices in  
Canada and the U.S.A.



# REPORT TO THE SHAREHOLDERS

## DIGITECH LTD.

### CONSOLIDATED STATEMENT OF PROFIT AND LOSS

Operations for the first six months of fiscal 1977 resulted in gross revenues of \$1,784,460 as compared to revenues of \$1,980,364 in the first six months of fiscal 1976. However, second quarter results of fiscal 1977 show revenues of \$1,048,190 as compared to \$924,629 in the second quarter of fiscal 1976. The second quarter revenues of the Seismic Division increased by 6% over revenues reported in the comparable quarter of the previous year and 103% over first quarter revenues in fiscal 1977. The Geological and Engineering Division second quarter revenues increased by 40% over revenues reported in the second quarter of the previous year and by 28% over first quarter revenues in fiscal 1977. The Services Division revenue remained approximately the same as the corresponding quarter in fiscal 1976.

On December 14th, 1976 the Company issued 500,000 treasury common shares for a cash consideration of \$150,000 pursuant to a Private Placement Agreement entered into December 11th, 1976. As a result, earnings per share figures for the six month period ending December 31st, 1976 have been calculated using the weighted average number of shares outstanding during each of the respective periods.

Seismic activity is forecast to continue strong through January, February and March, given favourable weather conditions. This activity should be reflected favourably in the Company's financial results. The outlook is also good for the Geological and Engineering Division as revenues are expected to remain approximately the same as those of the second quarter. Computer Services may possibly show a slight increase in revenues over the second quarter.

The Company will incur increased operating costs due to annual increase in payroll and outside services necessary to service the additional sales. Tight cost control measures within the Company have not been relaxed.

The Company is aggressively seeking new and profitable areas of conducting business and, at present, is in the process of establishing a strong marketing division. Means of reducing costs through increased efficiency in hardware and software are also presently under study and it is hoped that favourable results of these activities can be reported in the near future.

D. C. BURTT  
President

February 18th, 1977

|  | Six Months Ended<br>December 31, |                             | Three Months Ended<br>December 31, |                             |
|--|----------------------------------|-----------------------------|------------------------------------|-----------------------------|
|  | 1976                             | 1975<br>(Restated:<br>Note) | 1976                               | 1975<br>(Restated:<br>Note) |
| Revenue .....  | \$1,784,460                      | \$1,980,364                 | \$1,048,190                        | \$924,629                   |
| Expenses:  |                                  |                             |                                    |                             |
| Operating and selling .....  | 1,489,034                        | 1,341,544                   | 791,679                            | 659,043                     |
| General and administrative .....   | 287,365                          | 337,477                     | 139,355                            | 172,430                     |
| Interest .....   | 33,774                           | 35,283                      | 16,751                             | 17,436                      |
| Long-term debt .....   | 8,185                            | (6,947)                     | 5,528                              | (535)                       |
| Other .....  | 1,818,358                        | 1,707,357                   | 953,313                            | 848,374                     |
| (Loss) profit from continuing operations<br>before the following .....     | (33,898)                         | 273,007                     | 94,877                             | 76,255                      |
| Depreciation and amortization of<br>fixed assets .....                     | 47,285                           | 114,714                     | 23,868                             | 54,218                      |
| Amortization of programs and systems .....                                 | 34,157                           | 34,156                      | 17,079                             | 17,078                      |
|  | 81,442                           | 148,870                     | 40,947                             | 71,296                      |
| (Loss) profit from continuing operations<br>before income taxes .....      | (115,340)                        | 124,137                     | 53,930                             | 4,959                       |
| Provision for income taxes   |                                  |                             |                                    |                             |
| Current .....  | 35,000                           | 20,000                      | 35,000                             | 20,000                      |
| Deferred .....   | —                                | 50,000                      | —                                  | (9,600)                     |
|  | 35,000                           | 70,000                      | 35,000                             | 10,400                      |
| (Loss) profit from continuing operations .....                             | (150,340)                        | 54,137                      | 18,930                             | (5,441)                     |
| Profit from discontinued operations, net<br>of deferred income taxes ..... | —                                | 31,443                      | —                                  | 26,180                      |
| (Loss) profit before extraordinary item .....                              | (150,340)                        | 85,580                      | 18,930                             | 20,739                      |
| Extraordinary item   |                                  |                             |                                    |                             |
| Reduction in income taxes — deferred .....                                 | —                                | 81,000                      | —                                  | 21,400                      |
| (Loss) profit for the period .....   | \$ (150,340)                     | \$ 166,580                  | \$ 18,930                          | \$ 42,139                   |
| (Loss) profit per share:   |                                  |                             |                                    |                             |
| (Loss) profit from continuing operations .....                             | \$ (.09)                         | \$ .03                      | \$ .01                             | \$ (.01)                    |
| (Loss) profit before extraordinary item .....                              | \$ (.09)                         | \$ .05                      | \$ .01                             | \$ .01                      |
| Extraordinary item .....   | —                                | .05                         | —                                  | .01                         |
| (Loss) profit for the period .....   | \$ (.09)                         | \$ .10                      | \$ .01                             | \$ .02                      |

**Note:** In June, 1976 the decision was made to discontinue operations of the wholly-owned subsidiary, Digital Technology (London) Ltd. 1975 amounts have been restated to show results of operations of this subsidiary in Profit from discontinued operations, net of deferred income taxes.



## REPORT TO THE SHAREHOLDERS OF DIGITECH LTD.

In the fiscal year ended June 30, 1976, Digitech incurred a loss of \$455,391 after extraordinary costs of \$210,847 as compared to a loss of \$100,676 after extraordinary costs of \$43,420 in the previous fiscal year. The Company's gross revenues, including discontinued operations, were \$4,355,665 which is a decrease of 12 % from 1975 revenues of \$4,949,420. Working capital increased from \$23,125 at June 30th, 1975 to \$178,647 at June 30, 1976.

During the last several months of fiscal 1976, a substantial decline in seismic activity world-wide was experienced. As a result, 1976 seismic processing revenues decreased by 21 % and in June, 1976, the decision was made to discontinue operations of Digital Technology (London) Ltd., a wholly owned subsidiary operating in London, England. An estimated loss of \$218,697 arising from the discontinuance of the London operations has been included as an extraordinary cost in 1976.

The Computer Services Division showed an increase in revenues of 4 % over the previous fiscal year. This small growth was achieved despite the loss of a major client whose volume of business warranted the purchase of its own hardware.

The Geological and Engineering Division revenues remained approximately the same as in fiscal 1975. However, this division has achieved significant cost reductions in the second half of the fiscal year; thereby resulting in increased profitability.

By maintaining a tight cost control program, the Company was able to reduce costs by approximately 12 % from 1975 costs.

At the time of writing this message we are five months into fiscal 1977. Substantial losses have been experienced in the first quarter, but with improved seismic marketing techniques and emphasis, we are beginning to experience a turnaround and the Company is expected to report a modest profit for the second quarter of fiscal 1977. Third and fourth quarter results are expected to show even more significant improvement as seismic activity is forecast to remain relatively high.

Geological and Engineering revenues are expected to increase significantly especially with the anticipated expansion of digitizing capacity.

The Services revenue will remain essentially flat since this division is operating very close to capacity and would require a new hardware configuration in order to affect a material difference. A new configuration is presently under consideration.

Emphasis will continue to be placed on strict cost controls and management expects substantial improvement in financial results in fiscal 1977.

D. C. BURTT,  
President

December 10, 1976

## Consolidated Balance Sheet

|  | June 30            |                    |
|--|--------------------|--------------------|
|  | 1976               | 1975               |
| <b>ASSETS</b>  |                    |                    |
| Current assets:  |                    |                    |
| Cash and term deposits . . . . .                             | \$ 86,096          | \$ 76,442          |
| Accounts receivable  |                    |                    |
| Trade (Note 11) . . . . .                                    | 496,224            | 826,279            |
| Other . . . . .  | 18,968             | 25,384             |
| Inventories (Notes 1 and 3) . . . . .                        | 145,168            | 237,674            |
| Prepaid expenses . . . . .                                   | 8,581              | 16,672             |
| Current portion of notes receivable (Note 2) . . . . .       | 2,208              | 58,708             |
|  | <u>757,245</u>     | <u>1,241,159</u>   |
| <br>   |                    |                    |
| Funds held in trust — contra (Note 1) . . . . .              | 52,996             | —                  |
| Prepaid rentals . . . . .                                    | 10,000             | —                  |
| Notes receivable, less current portion (Note 2) . . . . .    | 11,040             | 13,248             |
| Fixed assets, programs and systems (Notes 1 and 4) . . . . . | 436,474            | 1,027,534          |
| Other . . . . .  | 350                | 839                |
|  | <u>\$1,268,105</u> | <u>\$2,282,780</u> |

|   | June 30            |                    |
|---|--------------------|--------------------|
|   | 1976               | 1975               |
| <b>LIABILITIES, SHARE CAPITAL AND DEFICIT</b>       |                    |                    |
| Current liabilities:                                |                    |                    |
| Accounts payable and accrued .....                  | \$ 402,945         | \$ 652,463         |
| Income taxes, prior years .....                     | —                  | 87,974             |
| Unearned revenue .....                              | 13,529             | 47,756             |
| Current portion of long-term debt (Note 5) .....    | 162,124            | 429,841            |
|   | <u>578,598</u>     | <u>1,218,034</u>   |
| Funds held in trust — contra (Note 1) .....         | 52,996             | —                  |
| Long-term debt, less current portion (Note 5) ..... | 741,052            | 715,496            |
| Share capital (Notes 6 and 11)                      |                    |                    |
| Authorized —  |                    |                    |
| 5,000,000 shares without nominal or par value       |                    |                    |
| 100,000 preferred shares with a nominal             |                    |                    |
| or par value of \$20 each                           |                    |                    |
| Issued —  |                    |                    |
| 1,638,139 shares without nominal or par value ..... | 793,836            | 792,236            |
| Deficit .....                                       | <u>(898,377)</u>   | <u>(442,986)</u>   |
|   | (104,541)          | 349,250            |
| Commitments (Note 7)                                |                    |                    |
|   | <u>\$1,268,105</u> | <u>\$2,282,780</u> |

APPROVED BY THE BOARD:

E. K. CONRAD, Director

D. B. NICHOLSON, Director



## Consolidated Statement of Loss and Deficit

|  | Year ended June 30  |                                |
|--|---------------------|--------------------------------|
|  | 1976                | 1975<br>(Restated)<br>(Note 8) |
| REVENUE .....  | \$3,729,084         | \$4,464,312                    |
| EXPENSES:  |                     |                                |
| Operating and selling .....  | 2,769,017           | 3,129,765                      |
| General and administrative .....   | 703,822             | 824,850                        |
| Interest —   |                     |                                |
| Long-term debt .....   | 76,661              | 95,398                         |
| Other .....  | (101)               | 30,862                         |
|  | <u>3,549,399</u>    | <u>4,080,875</u>               |
| Funds from continuing operations .....   | 179,685             | 383,437                        |
| Depreciation and amortization of fixed assets .....                                | 241,383             | 214,764                        |
| Amortization of programs and systems .....   | 68,313              | 73,445                         |
| Gain on disposal of equipment .....  | (20,323)            | —                              |
|  | <u>289,373</u>      | <u>288,209</u>                 |
| (LOSS) PROFIT from continuing operations before<br>income taxes .....              | (109,688)           | 95,228                         |
| Provision for income taxes (Note 9) .....  | 7,850               | 47,500                         |
| (LOSS) PROFIT from continuing operations .....                                     | (117,538)           | 47,728                         |
| LOSS from discontinued operations (Note 8) .....                                   | (127,006)           | (86,641)                       |
| Share of loss of 50 % owned company .....  | —                   | (18,343)                       |
| LOSS before extraordinary items .....  | <u>(244,544)</u>    | <u>(57,256)</u>                |
| Extraordinary items:   |                     |                                |
| Loss on liquidation of 50 % owned joint venture .....                              | —                   | (90,920)                       |
| Estimated loss arising from discontinuance of<br>certain operations (Note 8) ..... | (218,697)           | —                              |
| Reduction in income taxes (Note 9) .....   | 7,850               | 47,500                         |
|  | <u>(210,847)</u>    | <u>(43,420)</u>                |
| LOSS for the year .....  | (455,391)           | (100,676)                      |
| DEFICIT, beginning of year .....   | (442,986)           | (342,310)                      |
| DEFICIT, end of year .....   | <u>\$ (898,377)</u> | <u>\$ (442,986)</u>            |
| (LOSS) PROFIT per share:   |                     |                                |
| (Loss) profit from continuing operations .....                                     | <u>\$ (.07)</u>     | <u>\$ .03</u>                  |
| Loss before extraordinary items .....  | \$ (.15)            | \$ (.03)                       |
| Extraordinary items .....  | <u>(.13)</u>        | <u>(.03)</u>                   |
| Loss for the year .....  | <u>\$ (.28)</u>     | <u>\$ (.06)</u>                |



# Consolidated Statement of Changes in Financial Position

|   | Year ended June 30 |                  |
|---|--------------------|------------------|
|   | 1976               | 1975             |
| <b>WORKING CAPITAL PROVIDED BY:</b>   |                    |                  |
| Operations:   |                    |                  |
| Funds from continuing operations.....   | \$179,685          | \$383,437        |
| Loss from discontinued operations before depreciation and amortization .....          | (42,946)           | (13,215)         |
|   | 136,739            | 370,222          |
| Proceeds on disposal of equipment.....  | 63,900             | 623              |
| Repayments on notes receivable, including change in current portion .....             | 2,208              | 70,483           |
| Proceeds on liquidation of 50% owned company, net of advances.....                    | —                  | 37,225           |
| Capital stock.....  | 1,600              | —                |
| Other .....   | 489                | —                |
|   | <u>204,936</u>     | <u>478,553</u>   |
| <b>WORKING CAPITAL USED FOR:</b>  |                    |                  |
| Purchase of fixed assets .....  | 40,018             | 89,895           |
| Repayment of long-term debt and changes in current portion (Note 5) .....             | (25,556)           | 362,760          |
| Prepaid lease rentals .....   | 10,000             | —                |
| Estimated closing costs (Note 8) .....  | 10,000             | —                |
| Reduction in unearned revenue.....  | —                  | 10,934           |
| Extraordinary write-down of inventories to estimated realization value (Note 8) ..... | 14,952             | —                |
|   | <u>49,414</u>      | <u>463,589</u>   |
| Increase in working capital.....  | 155,522            | 14,964           |
| Working capital, beginning of year .....  | <u>23,125</u>      | <u>8,161</u>     |
| Working capital, end of year .....  | <u>\$178,647</u>   | <u>\$ 23,125</u> |

**Notes to Consolidated Financial Statements**

June 30, 1976

**1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:****PRINCIPLES OF CONSOLIDATION**

The consolidated financial statements include the accounts of Digitech Ltd. and its wholly owned subsidiaries ("the Company").

Foreign currency balances are expressed in Canadian dollars on the following basis:

Current assets and liabilities — at year end exchange rates

Other assets and liabilities — at historical exchange rates, except for discontinued facilities held for sale, which are at year end exchange rates (Note 8)

Revenues and expenses — at average monthly exchange rates for the year, except provisions for depreciation and amortization translated on the same basis as the related assets.

**INVENTORIES** Geological and geophysical work in progress is valued at the lower of cost or estimated realizable value on a completed contract basis; other inventories at the lower of cost or replacement cost.

**FUNDS HELD IN TRUST** From time to time the Company acts as broker in certain transactions involving the sale of geophysical data. The proceeds of such sales, net of commission, are held in trust pending distribution to the vendor.

**DEPRECIATION AND AMORTIZATION** Is on a straight line basis at rates designed to amortize costs over useful lives; computer equipment and accessories over approximately six years assuming no salvage values; furniture and fixtures over ten years; and leasehold improvements over the terms of the leases. Costs of programs, systems and data purchased from others are amortized over a period of five years. The undepreciated or unamortized cost of any items having doubtful future revenue potential are written off. Current program development costs are expensed as incurred.

**2. AMOUNTS OWING FROM DIRECTORS AND OFFICERS:**

Notes receivable represent amounts owing from directors and officers. These amounts arose as a result of share purchase agreements.

**3. INVENTORIES:**

|  | 1976             | 1975             |
|--|------------------|------------------|
| Computer tapes, spare parts and supplies . . . . . | \$ 75,047        | \$105,563        |
| Work in progress . . . . .                         | 70,121           | 132,111          |
|  | <u>\$145,168</u> | <u>\$237,674</u> |



#### 4. FIXED ASSETS, PROGRAMS AND SYSTEMS:

|  | Cost               | Accumulated depreciation and amortization | Extra-ordinary write-down (i) | 1976 Net book value | 1975 Net book value |
|--|--------------------|---|-------------------------------|---------------------|---------------------|
| Computer equipment and accessories . . . . . | \$1,169,536        | \$ 968,372                                | \$115,556                     | \$ 85,608           | \$ 522,020          |
| Furniture and fixtures . . . . .             | 161,320            | 89,898                                    | 3,432                         | 67,990              | 82,632              |
| Leasehold improvements . . . . .             | 251,237            | 64,386                                    | 74,757                        | 112,094             | 183,786             |
|  | 1,582,093          | 1,122,656                                 | 193,745                       | 265,692             | 788,438             |
| Programs and systems . . . . .               | 341,565            | 170,783                                   | —                             | 170,782             | 239,096             |
|  | <u>\$1,923,658</u> | <u>\$1,293,439</u>                        | <u>\$193,745</u>              | <u>\$436,474</u>    | <u>\$1,027,534</u>  |

- (i) As a result of the decision to discontinue operations of Digital Technology (London) Ltd. the fixed assets of that company were written down to estimated net realizable value as at June 30, 1976.

#### 5. LONG TERM DEBT:

|  | 1976             | 1975              |
|--|------------------|-------------------|
| 7 <sup>3</sup> / <sub>4</sub> % Promissory Notes payable to two principal shareholders, unsecured, carrying restrictions on incurring debt and lease commitments and other matters, repayable in 5 equal annual instalments from 1977 to 1981 inclusive (i). . . . . | \$735,566        | \$ 612,500        |
| Chattel mortgage, bearing interest at the rate of 13%, secured by specific equipment, due in monthly instalments including principal and interest of \$3,414 . . . . .   | 86,981           | 121,031           |
| Conditional sales agreement, secured by programs and systems, payable in annual instalments of \$56,250 . . . . .  | 55,629           | 110,068           |
| Agreement for sale payable . . . . .   | 25,000           | 45,000            |
| Conditional sales agreements payable, bearing interest rates of 8% to 11%, secured by retention of title to specific equipment, due in equal monthly instalments including principal and interest of approximately \$19,500 . . . . .                                | —                | 206,247           |
| Notes payable, interest at 1.5% above New York prime rate . . . . .  | —                | 49,074            |
| Other . . . . .  | —                | 1,417             |
|  | <u>903,176</u>   | <u>1,145,337</u>  |
| Less: Current portion, including arrears . . . . .   | <u>162,124</u>   | <u>429,841</u>    |
|  | <u>\$741,052</u> | <u>\$ 715,496</u> |

Amounts due in each of the next 5 years:

|             |           |             |           |
|-------------|-----------|-------------|-----------|
| Fiscal 1977 | \$162,124 | Fiscal 1980 | \$147,113 |
| Fiscal 1978 | \$182,953 | Fiscal 1981 | \$147,113 |
| Fiscal 1979 | \$166,759 |             |           |

- (i) At June 30, 1976 unpaid interest in the amount of \$123,066 on the 7<sup>3</sup>/<sub>4</sub>% Promissory Notes payable was converted to new 7<sup>3</sup>/<sub>4</sub>% Promissory Notes repayable in 5 equal annual instalments from 1977 to 1981 inclusive and the repayment terms on the existing 7<sup>3</sup>/<sub>4</sub>% Promissory Notes payable were amended to 5 equal annual instalments payable from 1977 to 1981 inclusive, from 5 equal annual instalments payable from 1976 to 1980, inclusive.

## 6. SHARE CAPITAL:

Of the authorized but unissued common stock, 883,294 shares were reserved at June 30, 1976 for the following options:

- (a) 69,180 shares, exercisable at \$0.40 per share until July 31, 1981 under the Employee Incentive Stock Option Plan.
- (b) 814,114 shares, exercisable until November 1, 1981, by holders of the 7<sup>3</sup>/<sub>4</sub>% Promissory Notes —
  - i) 292,338 shares at \$1.24 per share
  - ii) 275,644 shares at \$0.91 per share
  - iii) 246,132 shares at \$0.50 per share

## 7. COMMITMENTS:

The Company's equipment lease commitments total approximately \$800,000 per year through 1981. Leases covering office space in all locations total \$234,000 per year expiring in various years, with the major premises lease of \$230,000 per year expiring in 1983.

## 8. DISCONTINUED OPERATIONS:

In June, 1976 the decision was made to discontinue operations of the wholly-owned subsidiary Digital Technology (London) Ltd. Results of operations of this subsidiary are included in "Loss from discontinued operations" which consists of the following:

|                         | 1976             | 1975             |
|-------------------------|------------------|------------------|
| Revenue .....           | \$626,581        | \$485,108        |
| Expenses .....          | 753,587          | 571,749          |
| Loss for the year ..... | <u>\$127,006</u> | <u>\$ 86,641</u> |

The extraordinary item related to discontinued operations consists of the following:

|   |                  |
|---|------------------|
| Write-down of fixed assets to estimated realization value ..... | \$193,745        |
| Estimated closing costs .....                                   | 10,000           |
| Write-down of inventories to estimated realization value .....  | 14,952           |
|   | <u>\$218,697</u> |

The fiscal 1975 accounts have been restated to reflect separately the results of discontinued operations, as indicated above. Assets and liabilities related to the discontinued operations have not been segregated in the accounts.

Balances of these items are summarized below:

|                                | 1976             | 1975             |
|--------------------------------|------------------|------------------|
| Current assets                 |                  |                  |
| Cash .....                     | \$ 6,937         | \$ 77,339        |
| Accounts receivable .....      | 39,738           | 79,376           |
| Inventories .....              | 7,007            | 32,772           |
| Prepaid Expenses .....         | —                | 727              |
|                                | <u>53,682</u>    | <u>190,214</u>   |
| Current liabilities            |                  |                  |
| Accounts payable .....         | 62,643           | 50,398           |
|                                | <u>( 8,961)</u>  | <u>139,816</u>   |
| Fixed assets .....             | 2,855            | 197,614          |
| Net assets (liabilities) ..... | <u>\$(6,106)</u> | <u>\$337,430</u> |



## **9. INCOME TAXES:**

No provision has been made for possible future tax benefits which may result from claiming costs not previously claimed for tax purposes. At June 30, 1976 the undepreciated cost of fixed assets, programs and systems for Canadian tax purposes exceeded the related amounts for accounting purposes by approximately \$975,000. Actual tax losses carried forward may possibly be claimable in amounts of up to approximately \$600,000; these losses expire in 1980 (\$100,000) and 1981 (\$500,000). Assuming a 50 % tax rate, possible future Canadian tax benefits could amount to \$787,500.

In addition, the U.S. subsidiary incurred a loss of approximately \$30,000 which amount has been carried forward for tax purposes.

## **10. REMUNERATION OF DIRECTORS AND SENIOR OFFICERS:**

During fiscal 1976 ten directors and nine officers (including two former officers and directors) received remuneration for the year amounting to \$3,800 and \$191,200 respectively. Five officers who also served as Directors received no remuneration in the capacity of Directors.

## **11. SUBSEQUENT EVENTS:**

During September 1976, the Company obtained a bank loan of \$210,000 pursuant to a then existing letter of credit, secured by an assignment of trade accounts receivable which assignment continues.

Unaudited financial statements at October 31, 1976 indicate losses for the four months then ended of approximately \$190,000. Unaudited working capital amounted to approximately \$30,000. The bank loan amounted to \$204,000. The loan was secured by accounts receivable and by personal guarantees of two officers. Preliminary unaudited financial statements for the month of November 1976 indicate net income of approximately \$20,000.

Two officers presently control, directly or indirectly, 590,349 shares (36 %). Through a corporation they have agreed, subject to certain formalities being met, to purchase 500,000 shares from the Company for a cash consideration of \$150,000. They would then control, directly or indirectly, 51 % of the issued and outstanding shares of the Company.

As a condition of the equity investment, the holders of the 7<sup>3</sup>/<sub>4</sub> % Promissory Notes payable agreed to relinquish their options with respect to 567,982 shares; the option price on the remaining 246,132 shares was reduced from \$0.50 to \$0.30 per share (see Note 6). In the event that the options on all or any of the 246,132 shares are exercised, the two officers have the right to purchase the same number of shares at the same price per share. The holders of the 7<sup>3</sup>/<sub>4</sub> % Promissory Notes payable have agreed to convert any unpaid interest at June 30, 1977 to additional 7<sup>3</sup>/<sub>4</sub> % Promissory Notes and if this occurs those holders would then have the right to effectively convert the new Notes (equal to the unpaid interest) into shares of the Company based on the then market price per share.

## Auditors' Report

To the Shareholders of  
Digitech Ltd.

We have examined the consolidated balance sheet of Digitech Ltd. as at June 30, 1976 and the consolidated statements of loss and deficit and changes in financial position for the year then ended. Our examination included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances.

In our opinion these consolidated financial statements present fairly the financial position of the companies as at June 30, 1976 and the results of their operations and the changes in their financial position for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

PRICE WATERHOUSE & CO.  
Chartered Accountants

Calgary, Alberta  
December 10, 1976



# Digitech Services

## **SEISMIC DATA PROCESSING**

Processing of land and marine seismic data continues to be Digitech's largest revenue producer. The Company has developed advanced technology for identifying increasingly subtle prospective hydrocarbon traps. Increases in Canadian geophysical activity have resulted in a broadening of the seismic client base.

## **COMPUTER SERVICES**

Digitech provides remote job entry and time-sharing on a UNIVAC 1106 computer. Block time is purchased by a variety of companies throughout Western Canada engaged in various aspects of the resource industries. Support and training in the use of the 1106 Operating System is provided by Computer Services personnel.

The Company also provides preprocessing or preparation of data for further processing such as digital to digital demultiplexing, format conversion, analog to digital conversion and application of programmed gain or binary gain.

## **OMEGA WELL FILE SYSTEM**

The Omega system contains computerized information for more than 90,000 Western Canadian oil, gas and exploration wells. Categories of data contained in the file include general well data, formation tops, tests and cored intervals. Software has been developed to perform a variety of data retrievals and display of data in map form according to the user's requirements.

## **SONIGRAMS**

These are Digitech forms of synthetic seismograms which include a library of 8,500 wells in Western Canada, the Arctic Islands, East Coast and parts of the United States.

## **SEISPLOT**

Digitech creates digital files of interpreted seismic sections and shot point locations. Subsequent retrieval and processing with mathematical interpretation and graphical output saves clients professional and clerical effort.

## **PRODUCTION DATA SYSTEM**

Historical production data from wells in Alberta and British Columbia are maintained in a computerized file. Clients may assess production histories, pressure calculations, flows and other information. The completion of a conversational software system for accessing the Alberta Production Data File has been well received by industry and has resulted in a steady increase in usage.

# Digitech Services

## **CUSTOM FILES**

The Company has software which can manipulate, list and create files of client supplied data. This data can be merged with existing file data and retrieved and displayed as printed reports, listings, plots and maps.

## **POTENTIAL FIELD DATA PROCESSING**

Digitech offers a varied range of services for the compilation, integration, interpretation and display of gravity and magnetic data in profile and map form.

## **DIGITIZING**

Analog information is converted to digital information from source material such as well logs, seismic sections, contoured maps, water depth maps, etc.

## **COMPUTER GRAPHICS**

Digitech has a wide range of graphic devices — including a flatbed plotter, an electrostatic plotter and a seismic plotter.

## **SOFTWARE SALES**

The Company is continually upgrading existing programs and developing new techniques for handling earth science related data. Completion of the Digitech Seismic Processing System (DSPS) and upgrading of much of the Company's files and graphics software within an integrated Geo Science Processing System (GSPS) give Digitech an impressive array of exploration software available for sale or lease.

## **FACILITIES MANAGEMENT**

Digitech offers computer facilities management services. The extensive experience of the Digitech operations group ensures efficient, reliable computer operations.





